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THE BRETTON WOODS MONETARY AND FINANCIAL CONFERENCE

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Bretton Woods may be considered as the economic counterpart of Dumbarton Oaks in the field of international monetary and financial problems. The conferenc produced two major proposals for dealing with the basic problems in this field of international finance. One was the International Monetary Fund to promote stability of exchange rates as an aid to world trade. The other was the International Bank for Reconstruction and Development to facilitate the flow of capital on long-term loans to war-torn and undeveloped countries.

The International Monetary Fund

The general provisions by which the International Monetary Fund hopes to attain its basic objectives are briefly as follows:

1. Member countries will not change their exchange rates unless absolutely necessary and then only by consultation with the Fund.
2. A common pool of resources will be established and made available to members to meet temporary shortages of exchange.
3. Member countries agree not to engage in discriminatory currency practices or impose restrictions on making payments for current transaction between countries.
4. Members agree to maintain the gold value of their currency held by the Fund.
5. The Fund is to deal only with governments, and its facilities are to be used to clear only those balances not otherwise cleared by ordinary market transactions.

Amount and Source of Working Capital. The total resources in gold and the currency of member nations would be equal to $8.8 billion. The United States would contribute $2.75 billion. The other two nations contributing more than 1 billion are the United Kingdom with $1.3 billion and Russia with $1.2 billion. Approximately one-fourth of a member's quota would be paid in gold and three-fourths in its own currency.

Safeguards on These Resources.

1. There is a definite limit on the amount of currency of other countries that a member may obtain from the Fund in exchange for its own money.
2. A member using the Fund is required to pay certain charges which increase as the member's use of the Fund increases and which also increas according to the length of time the member's currency, in excess of its quota, is held by the Fund.
3. A member may be denied access to the Fund if it is believed that the member is using the resources of the Fund in a manner which is not in harmony with the Fund's objectives.

Management of the Fund. The Fund is to be administered by a Board of Governors consisting of one Governor appointed by each member. Responsibility for the general operations of the Fund would be entrusted to 12 Executive Director 5 of whom would be appointed by the countries having the largest quota.

Each member of the Board of Governors may cast 250 votes plus 1 vote for each $100,000 of its quota. Thus the United States would have 27,750 votes or 28 percent of the total. The United Kingdom would have 13.4 percent and Russia 12.4 percent of the total. The principal office of the Fund would be located in the United States.

The International Bank for Reconstruction and Development

The purpose of the Bank, as suggested in the title, is to facilitate the movement of capital to war-torn and undeveloped countries. The Bank is concerned with long-term international investments -- a field in which the Fund is not permitted to engage. The guarantee of loans made by private investors would be the principal function of the Bank although some of its capital would be available for direct loans.

Amount and Source of Capital. The initial capital of the Bank would be $9.1 billion. Of this amount the United States would subscribe $3.175 billion, the United Kingdom $1.3 billion, and Russia $1.2 billion. However, participating countries may never be asked to pay in more than a part of their total subscription, for the reason that only 20 percent of the total subscription may be used for making direct loans so that the other 80 percent would not be called except to meet possible losses on guaranteed loans.

Safeguards in Guaranteeing Loans.

1. The project for which the loan is sought must be sound.
2. Evidence must be presented that the necessary funds cannot be raised in the private capital markets at reasonable interest rates.
3. The Bank must receive the guarantee of the country in which the project is to be located.
4. The Bank is not allowed to have outstanding at any one time loans or guarantees in excess of its unimpaired capital, surplus, and reserves.
5. All loans and guarantees must have the consent of the country whose currency is involved.

Membership and Management. Membership in the Bank is open only to those countries that are also members of the Fund. Provisions for management and for voting are along the same lines as those provided in the Fund. The United States would have 31.4 percent of the total votes, while the United Kingdom would have 13 percent and Russia 12 percent. The headquarters of the Bank would be in the United States.

Support and Criticisms of Bretton Woods

There is a considerable amount of expert and informed opinion in favor of the Bretton Woods proposals. For example, a statement in support of Bretton Woods was submitted to all living ex-presidents of the American Economic Association. Of the 18 who replied, 16 were in favor of the statement. The possibility of improving details of the proposals was suggested in the statement of approval, but it was considered very doubtful whether another agreement could be reached at all or, if reached, whether in the end it would be better than the present one.

Several criticisms of the proposals have been made by certain experts and groups. These criticisms are more frequently directed at the Fund than at the Bank. One objection that has been raised is that exchange stability and capital

movements can be most effectively encouraged by restoring the gold standard and by adjustments in international prices and interest rates. Another criticism that has been made is that the available resources would be wasted and that the United States would be the biggest loser. Others point out that if stability of exchange rates is to be achieved, additional measures would be necessary, such as reducing tariffs and establishing sound internal economies in the member countries. Those in favor of the proposals readily admit that such additional measures would be highly desirable, if not essential, to the continued success of the Fund.

True and False Questions on Bretton Woods

Encircle the T before all true statements, and the F before all false statements.

T F 1. The fundamental purpose of Bretton Woods was to devise monetary and financial measures which would promote world trade.

T F 2. An International Bank for Reconstruction and Development and an International Monetary Fund were only two of several financial institutions proposed by Bretton Woods.

T F 3. The primary purpose of the proposed International Monetary Fund would be to promote exchange stability as an aid to world trade.

T F 4. The United States would provide almost two-thirds of the working capital of the Fund.

T F 5. The number of votes that may be cast by each country would be determined largely by its population.

T F 6. The primary purpose of the proposed International Bank for Reconstruction and Development would be to guarantee loans made by private investors.

T F 7. Bank loans would be approved only for "relief" projects which are primarily designed to provide work for the unemployed.

T F 8. All loans and guarantees made by the Bank must have the consent of the country whose money is involved.

T F 9. The headquarters for the institutions proposed at Bretton Woods would be in London.

T F 10. Congressional action is required before the United States would become a member of the institutions proposed at the conference.

These are some typical true-false questions which might be given before a talk on this subject to motivate interest. These questions might be discussed after the talk, with individuals checking their own answers.